

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

[Columbia, South Carolina]

HEARING #15-11463

FEBRUARY 26, 2015

6:55 P.M.

DOCKET NO. 2014-399-WS:

CAROLINA WATER SERVICE, INC.; UNITED UTILITY COMPANIES, INC;
UTILITIES SERVICES OF SOUTH CAROLINA, INC.; and SOUTHLAND
UTILITIES, INC. - Joint Application for Approval of Transfer of
Stock and Merger

TRANSCRIPT OF TESTIMONY
AND PROCEEDINGS

VOLUME 1

COMMISSION MEMBERS PRESENT: Nikiya M. 'Nikki' HALL,
Chairman; Swain E. WHITFIELD, *Vice Chairman*; and
COMMISSIONERS John E. 'Butch' HOWARD, Elliott F. ELAM,
JR., Comer H. 'Randy' RANDALL, Elizabeth B. 'Lib'
FLEMING, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION: Josh Minges, Esq.

STAFF: Jocelyn G. Boyd, Chief Clerk/Administrator; Joseph
Melchers, General Counsel; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC,
Court Reporter; and William O. Richardson and Calvin Woods, Hearing
Room Assistants

APPEARANCES:

CHARLES L.A. TERRENI, ESQUIRE, and **SCOTT
ELLIOTT, ESQUIRE**, representing CAROLINA WATER SERVICE,
INC.; UNITED UTILITY COMPANIES, INC; UTILITIES SERVICES
OF SOUTH CAROLINA, INC.; and SOUTHLAND UTILITIES, INC.,
APPLICANTS

JEFFREY M. NELSON, ESQUIRE, and **FLORENCE P.
BELSER, ESQUIRE**, representing the SOUTH CAROLINA OFFICE
OF REGULATORY STAFF

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P R O C E E D I N G S

CHAIRMAN HALL: Be seated. Thank you. Good evening, everyone. Thank you for being here. We will call this hearing to order and ask Mr. Minges to please read the docket and give us some instructions

MR. MINGES: Good evening, Madam Chairman. Good evening, folks. This proceeding before the Public Service Commission in Docket No. 2014-399-WS concerns the consolidation of Utilities, Incorporated's subsidiaries in South Carolina.

This public hearing has been scheduled on February 26, 2015, in the Commission's hearing room.

Madam Chairman, the docket is in order.

CHAIRMAN HALL: Okay, thank you. And who appears for Carolina Water Service?

MR. TERRENI: Madam Chairman, I'm Charlie Terreni, and Scott Elliott is with me, here on behalf of Carolina Water Service.

CHAIRMAN HALL: Okay. Thank you.

And for ORS?

MR. NELSON: Good evening, Madam Chair and members of the Commission. I'm Jeff Nelson, on behalf of the Office of Regulatory Staff.

1 **CHAIRMAN HALL:** Okay, thank you.

2 Do we have any preliminary matters that we
3 need to take up before we begin taking testimony?

4 **MR. NELSON:** Madam Chair, if I could, I'd like
5 to do my little preliminary intro --

6 **CHAIRMAN HALL:** Please.

7 **MR. NELSON:** -- with this public hearing, so
8 if I could have just a couple of moments of the
9 Commission's time to do that.

10 **CHAIRMAN HALL:** Okay, thank you.

11 **MR. NELSON:** First of all, I'd like to thank
12 y'all for coming. Out of the -- you saw the
13 numbers up there. Out of the 14,000-and-something
14 customers that --

15 **CHAIRMAN HALL:** Mr. Nelson, I'm sorry. Will
16 you go to a microphone, please, sir?

17 **MR. NELSON:** I'm trying to use one of these
18 [indicating]. These things, I have a problem with
19 them. Can you hear me now?

20 **CHAIRMAN HALL:** Yeah, you're good now. Thank
21 you.

22 **MR. NELSON:** So, thank y'all for showing up.
23 I appreciate it. I just want to explain briefly
24 the process that goes on with these night hearings
25 and what the Office of Regulatory Staff's function

1 is in it.

2 As previously introduced, I'm Jeff Nelson.
3 I'm an attorney with the Office of Regulatory
4 Staff. Also here today is Ms. Florence Belser, who
5 is also one of our attorneys; Ms. Dawn Hipp, who is
6 one of our managers; Mr. Willie Morgan, who manages
7 the Water & Wastewater Department. We're all here,
8 and we're available to talk to you, as well.

9 Excuse me, Brad Kirby is back there, as well; Brad
10 is with our Consumer Services. We'd all be happy
11 to talk with you tonight when this is over. If you
12 have any questions, we'll be happy to try to answer
13 them for you.

14 The Office of Regulatory Staff's piece in this
15 whole process is that we have a three-part process,
16 or a three-legged stool, that we are supposed to
17 represent the public interest in these cases:
18 That's the using-and-consuming public, which is the
19 customers of the systems; we also have to look
20 after the financial integrity of the systems; and
21 we also look at the economic development, job
22 creation, and retention. So we have a three-part
23 role in this process.

24 What we do when an application, such as this,
25 or a rate case is filed by one of these utilities,

1 we have auditors on our staff, we have engineers
2 such as Mr. Morgan, who review these applications
3 and come up with an opinion as far as what we then
4 present to the Public Service Commission, who is
5 the ruling entity in these cases.

6 Now, when we have a public hearing like this,
7 this is your opportunity as a member of the public
8 to present your opinions to the Public Service
9 Commission, to the Commissioners, who are
10 interested in what you have to say because you're
11 the customers who are affected, obviously, by these
12 cases.

13 This is not a rate case, as I think Mr.
14 Terreni spelled out earlier. No rates are going to
15 be affected by this filing. However, what this is
16 is a corporate consolidation of four entities that
17 are currently operated by United Utilities_[sic] in the
18 State of South Carolina.

19 We have reviewed that information. We've
20 looked at everything involved, and we came to the
21 opinion that we thought this was -- this corporate
22 consolidation -- something that would benefit the
23 ratepayers and, therefore, that was our opinion in
24 this case. That doesn't necessarily mean that
25 that's going to be your opinion, and that's why

1 this is your opportunity to present to the
2 Commission today.

3 When you come up, Ms. Jo Wheat, who is the
4 court reporter in this case -- everything we say
5 here today will be put on the record by Ms. Wheat,
6 so there's a public record of this hearing tonight.
7 You will be sworn in. And once you present your
8 testimony, Mr. Terreni, myself, or members of the
9 Commission are allowed to ask you questions, so
10 once you get done, please stay on the stand until
11 we're done.

12 The Commission itself is what is called a
13 quasijudicial body. That means they kind of sit
14 like judges on these cases. Therefore -- just like
15 if you were a witness in a courtroom, you're not
16 allowed to ask the judge questions -- if you come
17 up and present testimony, please don't ask the
18 Commissioners questions. While I'm sure they'd
19 like the opportunity to try to answer them, they
20 are prohibited from doing so by the Judicial Canons
21 of South Carolina.

22 So that kind of completes the opening
23 statements. When you get sworn in -- there's a
24 list up there that probably Mr. Minges has. He
25 will call you up, you'll be sworn in, and you can

1 provide your testimony. And, again, when you're
2 done, if you have any questions about this process
3 or anything else, we're available; just come talk
4 to us.

5 That's all I have, Madam Chair. Thank you,
6 very much.

7 **CHAIRMAN HALL:** All right. Thank you, Mr.
8 Nelson.

9 Mr. Minges?

10 **MR. MINGES:** Thank you, Madam Chairman. We do
11 have one other preliminary matter. Public Witness
12 Don Long would like to have verified prefiled
13 public witness testimony submitted as a late-filed
14 exhibit at a future date.

15 **CHAIRMAN HALL:** Okay, thank you.

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24 [THE VERIFIED TESTIMONY OF
25 DON LONG FOLLOWS AT PGS 9-11]

To: Ms. Jocelyn Boyd, Chief Clerk
 Public Service Commission of South Carolina (PSC)
 P.O. Drawer 11649
 Columbia, SC 29211

REFERENCE:

- 1.) PSC Docket No. 2014-399-WS, Joint Application of Carolina Water Service, Inc.; United Utility Companies, Inc.; Utilities Services of South Carolina, Inc.; and Southland Utilities, Inc. for Approval of Transfer of Stock and Merger.
- 2.) PSC **NOTICE OF AN INFORMATIONAL SESSION AND OF A PUBLIC NIGHT HEARING** regarding Docket No. 2014-399-WS dated 12/11/14.

SUBJECT: Statement of Donald G. Long regarding the Joint Application referenced above which is the subject of PSC Docket No. 2014-399-WS. The statement is submitted for inclusion as pre-filed testimony in the record of the Public Hearing of 02/26/15 and for distribution to each of the PSC Commissioners. The testimony follows:

My name is Don Long. I am a resident of the Lake Wylie Community in York County, SC. I am also a long-time customer of the current Carolina Water Service, Inc. and of its parent corporation, Utilities, Inc. I offer the following comments on the Joint Application referenced above and designated as Docket No. 2014-399-WS.

I am offering my testimony in this manner rather than orally and in person because the matter under consideration is relatively complex and very significant to Lake Wylie and York County and cannot reasonably or appropriately be discussed before the PSC within the time limit of three (3) minutes which has been arbitrarily imposed by the PSC. This less-than-two-page document takes over six (6) minutes to reasonably deliver orally. As the Commissioners, PSC Staff, and the management and staff of the Office of Regulatory Staff (ORS) are aware, I believe such a limit on public expression at a public hearing is unjustified, unwarranted, and could be interpreted as a lack of interest or desire on the part of the PSC to include public opinion as part of their deliberations. The very idea that depriving more citizens of the ability to provide meaningful testimony is a positive factor boggles the mind. But it is what it is.

I believe that the Joint Application for merger and transfer of stock which is before the PSC and identified as Docket No. 2014-399-WS, if approved as proposed, will have substantial and unnecessary negative impacts on the citizens and taxpayers of York County and on the customers, statewide, of the current Carolina Water Service, Inc. (CWS) for the following reasons:

1.) Increased Water and Sewer Rates: The merger, as proposed, brings together three (3) relatively small, as measured by numbers of customers and by revenue, subsidiaries of Utilities, Inc. with the current CWS, a relatively large subsidiary of Utilities, Inc. Such a merger, almost inevitably, and most certainly in this case, will bring about an increase in the water and sewer service rates of the larger, relatively more efficient (as measured by the lower current service rates) entity. While CWS is currently the highest cost provider of water and sewer service of the eleven (11) water and service companies operating within a ten (10) mile radius of the center of their operating area in York County, their rates are between 24% and 127% lower than the rates of the three (3) subsidiaries proposed to be merged with them.

A detailed proportional analysis of the likely effects of the consolidation of the rates of the subsidiaries proposed to be merged indicates a probable increase in the combined water and sewer rates of current CWS customers of between 13% and 15%. This is a larger rate increase than has occurred through normal rate increase actions in many years.

2.) Subsidizing Inefficient Systems. As a result of the proposed merger and subsequent rate consolidation, the customers of the three (3) smaller, less efficient "downstate" subsidiary systems will be substantially subsidized by the customers of the current CWS which operates both "upstate" and "downstate". Also, since CWS has over two-thirds of the total South Carolina customers of Utilities, Inc., nearly two-thirds of the sewer customers, and over half of the water customers, the great majority of Utilities, Inc. customers will be disadvantaged by the merger.

The PSC should not allow the inefficiencies of the smaller systems to become an obvious and permanent economic burden on the current CWS customers. The current proposal not only allows, but insures, that such will happen.

3.) Public Acquisition of CWS York County Assets: It is public knowledge that there is a citizen effort within York County to encourage York County to acquire the York County assets of CWS under the provisions of the CWS York County franchise. The current franchise expires in early 2017, only 22 months from now. Under the expiration terms, York County has the option to acquire the assets through the process of eminent domain. If the merger as proposed is approved, rates will increase causing an unjustified windfall increase in the supposed value of the York County assets of CWS, and, therefore, in the price which the citizens of York County will pay to acquire them. While the exact amount is unknown at this time, the added cost to York County could run into the millions of dollars, all to the benefit of Utilities, Inc.. Clever. Yet, to my knowledge, the PSC has not given consideration to this inevitable result of the merger as proposed. If the merger is to be seriously and fairly considered, the York County assets of CWS should be removed from the merger and set aside as a separate entity until York County has a reasonable opportunity to decide on their acquisition, which will be at least 2017.

4. Planned Investment in CWS: Recently, Utilities, Inc., in a letter to CWS customers, bragged about \$4,800,000 in investments they had made or intended to make in the CWS system. If one looked carefully at the nature of the investments, it appeared that, while over 40% of CWS customers are located in York County, only about 7% of the planned investment was destined for York County. And a good share seemed to be standard maintenance rather than "investment". This seems to be a clear "get out of the business in York County" strategy. The result will probably be that the York County system will become substandard while CWS's financial position is enhanced. This is a neat trick if you can pull it off. I'm not aware of any effort by the PSC to insure easy identification or a fair distribution of improvements in the existing CWS systems.

5. Nature of Financial Statements: CWS has routinely used unaudited financial statements to support its requests for rate increases. The PSC has allowed this practice despite the possibility of unintended errors or intended biased presentations accruing to the benefit of CWS and Utilities, Inc. I don't know of any obvious moves on the part of the PSC to disallow such an un-businesslike practice. The PSC should be requiring the use of independently audited financial statements when the time comes for consolidation of rates as a result of the proposed merger if approved. Also, no financial statements of any significance were provided with the request for merger to assist in evaluating the consequences of the merger. Nor were any post-merger rate projections provided. They should have been provided.

6. Unsubstantiated Claims: Utilities, Inc. has made claims about its Joint Application which are highly debatable. E.g.:

- 1.) Utilities, Inc. said in a Motion to Waive a Public Hearing that the Joint Application for Merger provided "detailed information... sufficient to inform the Commission and the public of the transaction and its consequences.". This was clearly not the case. The likely impacts and implications of the merger were, at best, masked.
- 2.) Utilities, Inc. said that, "Approval of the Application will result in greater administrative efficiency..." CWS's bills and corporate address for several years have been in Florida and Maine, respectively to apparently provide maximum administrative efficiency. How is this merger going to substantially improve on this? Not at all clear.
- 3.) Utilities, Inc. said that, "approval of the application will have no effect on customers' rates..." This was a deceptive and misleading statement applying only to Phase One of the merger plan, and not to Phase Two which is primarily devoted to rate consolidation which would affect the rates of every Utilities, Inc. customer in South Carolina.
- 4.) Utilities, Inc. said "There are no contested issues in this docket". Nonsense.

If this merger is to be seriously considered, it should only be in the context of merging the downstate components of the subsidiaries. The York County components should be excluded and set aside in a separate entity, at least until York County has an opportunity to evaluate acquiring them. Even then, all the customers of the current CWS, downstate and upstate, will see a substantial increase in their rates with no significant benefit accruing to them. In addition, the PSC should insist on a resubmission of the Joint Application with the inclusion of financial information and rate projections sufficient for the PSC and the public to make a thorough analysis and an informed decision.

Thank you for your attention and consideration.

Don Long
14 Sunrise Point Court
Lake Wylie, SC 29710

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION
DOCKET NO. 2014-399-WS

In re: Joint Application of Carolina)
Water Service, Incorporated; United)
Utility Companies, Incorporated;)
Utilities Services of South Carolina,)
Incorporated; and Southland Utilities,)
Incorporated for Approval of Transfer)
of Stock and Merger)

VERIFICATION OF
DON LONG

The Affiant, after having been first duly sworn, deposes and states as follows:

1. I, Don Long, reside at 14 Sunrise Point Court, Lake Wylie, South Carolina 29710.
2. I have read and verified my previously filed testimony of two pages, and I ask that it be included in the record of the Public Night Hearing scheduled for the evening of February 26, 2015, before the Public Service Commission of South Carolina.
3. The contents of my testimony are true and correct to the best of my knowledge and belief.



Don Long

Subscribed and sworn before me this the 28th day of February, 2015.



Notary Public

My Commission expires:
AMY M. CAMILLERI
Notary Public, State of South Carolina
My Commission Expires 10/11/2023

1 **CHAIRMAN HALL:** If you'll give us the list,
2 Mr. Minges.

3 **MR. MINGES:** Thank you. I don't have much to
4 add other than what the Office of Regulatory Staff
5 has provided. When I call your name, come forward
6 and be sworn in. Make sure you state the utility
7 that you're a customer of, and then proceed with
8 your testimony. Make sure you also give your name
9 and address. After you're done, please remain at
10 the podium or the microphone for any questions the
11 parties or the Commissioners may have.

12 Your testimony is limited to three minutes
13 tonight. And, again, as the Office of Regulatory
14 Staff pointed out, the Commissioners are prevented
15 from taking questions this evening.

16 With that, Madam Chairman, I'll call our first
17 witness. Robert Studdard, would you please come
18 forward?

19 **MR. STUDDARD:** Uh --

20 **CHAIRMAN HALL:** Come forward, Mr. Studdard,
21 please.

22 **MR. STUDDARD:** Okay. Okay [indicating].
23 Okay. I signed up for the -- to testify, but they
24 answered my questions.

25 **CHAIRMAN HALL:** Mr. Studdard, if you could go

1 to a microphone, please, so we can record your
2 comments?

3 **MR. STUDDARD:** Okay [indicating]. My name is
4 Robert E. Studdard. I live at 225 Hamilton Drive,
5 Columbia, South Carolina. I'm a customer of
6 Utilities of South Carolina -- Utilities Services
7 of South Carolina. And I had a concern about the
8 fire hydrants in the area, but they've answered my
9 questions, so I don't think I need to testify. Is
10 that okay?

11 **CHAIRMAN HALL:** Okay. Well, thank you, Mr.
12 Studdard. Thank you for coming, and I'm glad they
13 were able to address your concern.

14 **MR. MINGES:** Katherine Price, would you please
15 come forward?

16 [Witness sworn]

17 THEREUPON came,

18 **K A T H E R I N E H . P R I C E ,**
19 who, having been first duly sworn, testified and was examined
20 as follows:

21 **WITNESS:** Hi. I'm Katherine H. Price. I live
22 at 205 Amber Ridge Trail, Irmo, South Carolina
23 29063. I'm a customer of Carolina Water Service,
24 and I appreciate you hearing me this evening.

25 I was last here at the public hearing January

13, 2014, when they requested a 25 percent increase, but they were awarded approximately a 12 percent increase. Utilities, Inc., in general, says that they're not going to consolidate its tariffs until the next general rate case, but we all know that that can be fairly quickly. In their business plan they submitted, they said that they wouldn't submit a rate case in 2014; well, 2014 is over.

I'm a sewer customer only, and my rate is currently \$45.04 per unit. The other sewer companies that they are trying to consolidate are almost \$70 a unit and \$53 a unit. Simple math says that my rates are going to go up, even though they don't want to commit to addressing that issue.

They say, in the report, the real benefits of consolidation will be transparency and efficiency resulting from a simplified ratemaking process. I disagree with that. They say many variables can affect rate case expenses, including the number of intervenors, the ORS's audit, the amount of discovery, number of public hearings, but they never say their acquisition of dilapidated companies -- which is a nationwide problem with Utilities, Inc., not just South Carolina with the

1 four companies that we're dealing with currently --
2 and there's nothing to prevent them from acquiring
3 other dilapidated systems in the future and trying
4 to consolidate them.

5 In my opinion, cities and counties have been
6 shirking their responsibility and claim no new
7 taxes while they allow companies like Utilities,
8 Inc., to come in, so they don't have to raise taxes
9 and they get to say, "I didn't raise taxes," but
10 the rates are still being absorbed by the people
11 here, and then the Utilities, Inc., stakeholders --
12 which is who they're ultimately responsible to --
13 laugh all the way to the bank.

14 I do formally request -- and I know that this
15 is a DHEC issue, but for the record, I want to be
16 able to opt out and be able to install a septic
17 tank in my neighborhood, which, according to the
18 range of installation, ranges from \$1500 to \$4000,
19 depending on your site conditions. And even at the
20 \$4000 rate, in seven years at the current rate, I
21 could pay that system off. I shouldn't have to be
22 held captive just because I have public utilities.

23 Thank you for your time.

24 **CHAIRMAN HALL:** Thank you, Ms. Price. Do
25 either of the parties have any questions for Ms.

1 Price?

2 MR. TERRENI: No, Madam Chair.

3 MR. NELSON: No, no questions.

4 CHAIRMAN HALL: Okay. Commissioners, any
5 questions for Ms. Price?

6 [No response]

7 All right. Thank you, Ms. Price. You may
8 step down. Thank you for coming.

9 WITNESS: Thank you. I appreciate it.

10 [WHEREUPON, the witness was excused.]

11 MR. MINGES: Madam Chairman, that concludes
12 the list that we have.

13 CHAIRMAN HALL: Okay, thank you. Well, we
14 will be interested to see how this develops, and
15 this hearing is adjourned for this evening.

16 MR. TERRENI: Madam Chair, I just --

17 CHAIRMAN HALL: Oh, sorry.

18 MR. TERRENI: I had one matter. We had the
19 informational session before the public hearing,
20 and we have a PowerPoint that we used in it, that,
21 with your leave, I'd like to submit to the
22 Commission as part of the record.

23 CHAIRMAN HALL: Okay. All right. All right,
24 so that's Hearing Exhibit 2?

25 MR. MINGES: The late-filed is No. 1.

1 **CHAIRMAN HALL:** Okay. And Mr. Long's late-
2 filed exhibit will be Hearing Exhibit No. 1, and
3 the PowerPoint -- no.

4 **MS. WHEAT:** What Mr. Long sent us was
5 testimony, so I thought we would probably put it in
6 as we do with testimony. He didn't send any
7 exhibits, per se.

8 **MR. MINGES:** Okay. That's fine.

9 **CHAIRMAN HALL:** Okay.

10 [Discussion off the record.]

11 All right. Under direction of Ms. Wheat,
12 then --

13 [Laughter]

14 -- the PowerPoint will be Hearing Exhibit
15 No. 1.

16 [WHEREUPON, Hearing Exhibit No. 1 was
17 marked and received in evidence.]

18 All right. Thank you. And then if there are
19 no other matters, then we are adjourned. Thank
20 you.

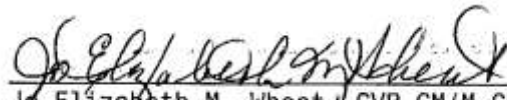
21 [WHEREUPON, at 7:08 p.m., the hearing in
22 the above-entitled matter was adjourned.]

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, Notary Public in and for the State of South Carolina, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had and testimony adduced in a evening public hearing held in the above-captioned matter before the PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA;

That the witnesses appearing during said hearing were sworn or affirmed by me to state the truth, the whole truth, and nothing but the truth;

IN WITNESS WHEREOF, I have hereunto set my hand and seal, on this the 2nd day of March, 2015.


Jo Elizabeth M. Wheat, CVR-CM/M-GNSC
Hearings Reporter, PSC/SC
My Commission Expires: January 27, 2021.